

GAO

Testimony

Before the Committee on the Budget, House of
Representatives

For Release on Delivery
Expected at
10 a.m.
Thursday,
February 17, 2000

CONGRESSIONAL
OVERSIGHT

Opportunities to Address
Risks, Reduce Costs, and
Improve Performance

Statement of David M. Walker
Comptroller General of the United States



DISTRIBUTION STATEMENT A
Approved for Public Release
Distribution Unlimited

20000223 185

DTIC QUALITY INSPECTED 1



GAO

Accountability * Integrity * Reliability

I appreciate the opportunity to be here this morning to discuss our views on targets of opportunities that you and other members of the Congress can consider when addressing the budget and oversight challenges before you. The Committee is to be commended for holding these hearings and emphasizing that—surplus or no surplus—poor performance, waste, and inefficiency cannot be ignored. No matter how large the projected surpluses may be, they do not absolve the government of its responsibility to make prudent use of taxpayer dollars. Rather, the surplus provides an opportunity to rise out of the 1-, 3-, or 5-year budget horizons of recent deficit debates and to focus on how to restore the public's trust and confidence in their government.

After a decade of deficit reduction, we know there are pent-up demands for using projected surpluses. However, if careful scrutiny is given only to new spending or tax proposals, policymakers will have missed a critical window to address known performance problems in government. Left unresolved, these problems can expose federal programs and operations to unnecessary risk, excessive costs, and chronic performance shortfalls. Resolving some of these problems offers the potential to save billions of dollars and dramatically improve the delivery of services to the American public. For instance, nine federal agencies estimated improper payments of \$19.1 billion for fiscal year 1998 and we continue to highlight 26 major areas as being highly vulnerable to fraud, waste, abuse, and mismanagement.

These persistent problems suggest that we cannot afford to be any less vigilant in our attention to programs at high risk of fraud, waste, abuse, and mismanagement in a time of surplus. In fact, it is our obligation to safeguard benefits for those that deserve them by preventing the diversion of scarce federal resources for inappropriate, unauthorized, or illegal purposes. The activities that GAO has identified as high-risk areas warrant vigilant and persistent oversight and attention by executive agencies and the Congress alike. Significant opportunities exist to reduce waste and improve the economy and efficiency of federal activities in other areas as well, as I will discuss in my statement today.

Mr. Chairman, we also have an obligation to modernize government to more effectively address the needs of a changing society. As we enter a new century, we have been reminded about how much things change. Yet many of our programs—their goals, organizations, and processes—were designed long ago. Given this context, it shouldn't be insulting or threatening to any federal program or activity to question its relevance or "fit" in today's world. In fact, it is wholly appropriate and prudent to do so.

Examining the legacy of existing activities and programs can yield important benefits. First, we can provide for much needed flexibility to address looming cost pressures and emerging needs by weeding out wasteful and inefficient programs that have proven to be outdated and no longer relevant to our changing society. As the baby boom retires, enhancing budgetary flexibility will be even more critical as the projected growth of Social Security and health care outlays threaten to crowd out other priorities. Second, we can update and modernize those activities that remain relevant by improving their targeting and efficiency through such actions as redesigning formulas, enhancing cost sharing by beneficiaries, consolidating facilities and programs, and streamlining and reengineering operations and activities.

All of our work reaffirms that with billions of dollars at risk and notwithstanding our current budget surplus environment, the Congress and federal agencies need to devote sustained attention to oversight and reexamination of existing programs and activities to improve the performance of government and reduce the potential for fraud, waste, abuse, and mismanagement. Let me hasten to add that federal agencies have taken the high-risk areas seriously and are making progress in addressing them, and the Congress has also acted to provide oversight and needed legislative changes. However, more needs to be done by executive agencies and the Congress to accelerate progress. Many of these problems are deeply rooted and complex. Although plans have been conceived to address many of these issues, the more difficult implementation task of successfully translating those plans into day-to-day management reality lies ahead for many of these areas. Vigilant congressional oversight will be absolutely critical to promoting and sustaining a high level focus on these problems and support for appropriate actions to address them.

Mr. Chairman, I don't need to tell you that sorting through existing programs is a serious, if often unglamorous, task that is nonetheless vital. This task is made particularly difficult because existing programs and commitments are "in the base" in budgetary terms and can have an advantage over new initiatives and demands.

In my testimony today I draw on the full breadth of GAO work to highlight numerous examples of significant performance problems in federal agencies and programs, each drawn from the key findings and issues

developed in our audits and evaluations.¹ To facilitate our discussion, the examples are organized around the following four broad themes:

- **Attack activities at risk of fraud, waste, abuse, and mismanagement:** focus on minimizing risks and costs associated with the delivery of major federal programs and activities.
- **Improve the economy and efficiency of federal operations:** capture opportunities to reduce costs through restructuring and streamlining federal activities.
- **Reassess what the federal government does:** reconsider whether to terminate or revise outdated programs or services provided.
- **Redefine the beneficiaries of federal government programs:** reconsider who is eligible for, pays for, and/or benefits from a particular program to maximize federal investments.

Attacking Activities at Risk of Fraud, Waste, Abuse, and Mismanagement

Mr. Chairman, in selecting priorities for oversight, major attention should be given to addressing the vulnerability of many critical federal programs and operations to the risk of fraud, waste, abuse, and mismanagement. Over the years, our work has shown that central functions and programs critical to personal and national security, ranging from Medicare to weapons acquisitions, have been hampered by daunting financial and program management problems. These problems result in persistent exposure of these activities to waste and abuse.

These weaknesses have real consequences with large stakes that are important and visible to many Americans. Some of the problems involve the waste or improper use of scarce federal resources: federal funds are diverted from their intended uses or beneficiaries, revenues owed are not effectively identified or collected, or excessive inventories and procurement costs drive federal costs higher than they need to be for some areas. Other problems compromise the ability of the federal government to deliver critically needed services: systemic information management weaknesses undermine the nation's ability to modernize our technology for tax processing, airline safety, and weather forecasting; and systemic procurement problems hamper the development of weapons

¹Many of the examples discussed in this testimony were developed as part of our annual effort to describe the budgetary implications of our work. See *Budget Issues: Budgetary Implications of Selected GAO Work for Fiscal Year 2000* (GAO/OCG-99-26, Apr. 16, 1999). We expect to update and issue this product to this Committee and others next month and are currently working with the Congressional Budget Office and the Joint Committee on Taxation to develop estimates of budget savings or revenue gains for these and other examples.

systems and the cleanup of hazardous wastes at DOE sites. Perhaps of greatest importance is the impact of these problems on our ability to safeguard critical assets and operations from theft and misuse, whether it is critical national security information or private tax return information.

Areas at High Risk and Programs Vulnerable to Improper Payments

In January 1999, we reported on specific federal activities and functions that are particularly vulnerable to fraud, waste, abuse, and mismanagement—an update to a series on high-risk activities begun in the last decade and provided at the start of each new Congress.² Since 1990, six of our high-risk designations have been removed as a result of sustained, tangible improvements by the affected agencies; at the time of our last update, however, 26 high-risk areas remained, as shown in table 1. We have also recently reported on estimates of the range and magnitude of improper payments within specific federal programs—several of which have also been identified as high-risk areas—as disclosed in agency financial statements reports.

²GAO has issued update reports on the status of high-risk areas every other year since 1993. Our latest report was *High-Risk Series: An Update* (GAO/HR-99-1, Jan. 1999).

Table 1: 1999 High-Risk Areas and The Year Designated*

Reducing Inordinate Program Management Risks	
Medicare	1990
Supplemental Security Income	1997
Internal Revenue Service (IRS) Tax Filing Fraud	1995
Department of Defense (DOD) Infrastructure Management	1997
Department of Housing and Urban Development (HUD) Programs	1994
Student Financial Aid Programs	1990
Farm Loan Programs	1990
Asset Forfeiture Programs	1990
The 2000 Census	1997
Managing Large Procurement Operations More Efficiently	
DOD Inventory Management	1990
DOD Weapon Systems Acquisition	1990
DOD Contract Management	1992
Department of Energy Contract Management	1990
Superfund Contract Management	1990
National Aeronautical and Space Administration Contract Management	1990
Ensuring Major Technology Investments Improve Services	
Air Traffic Control Modernization	1995
Tax Systems Modernization	1995
National Weather Service Modernization	1995
DOD Systems Development and Modernization Efforts	1995
Providing Basic Financial Accountability	
DOD Financial Management	1995
Forest Service Financial Management	1999
Federal Aviation Administration Financial Management	1999
IRS Financial Management	1995
IRS Receivables	1990
Resolving Serious Information Security Weaknesses	1997

*Note: Our most recent update to the high-risk list in January 1999 also included "Addressing the Urgent Year 2000 Computing Challenge." Given the progress that has been made on this issue, we have not included it in this summary table. See *Year 2000 Computing Challenge: Leadership and Partnerships Result in Limited Rollover Disruptions* (GAO/T-AIMD-00-70, Jan. 27, 2000).

The high-risk areas shown in table 1 as well as other improper payments reflect serious and continuing problems with financial, information, and program management across many federal functions and agencies. Collectively, these areas affect almost all of the government's annual

\$1.7 trillion in revenue and span critical government programs and operations from benefit programs to large lending operations, major military and civilian agency contracting, and defense infrastructure. Lasting solutions to these problems offer the potential to save billions of dollars, dramatically improve services to the public, and strengthen confidence in the accountability and performance of the national government.

In these areas, more needs to be done to achieve real and sustained improvements. GAO has made many recommendations to address and correct these problems. However, these problems will take time to fully resolve because they reflect deep-rooted, difficult problems in very large programs and organizations. Real improvements in performance and management will require persistent and sustained attention, and some areas may in fact need targeted and well-chosen investments in systems and human capital in order to achieve recurring savings.

I will now turn to a discussion of selected areas, which illustrate the problems facing us, and the need for increased and sustained congressional oversight and management attention.

Medicare

With annual payments of about \$200 billion, Medicare is one of the fastest growing major social programs in the federal budget and is projected to almost double its size in the next 10 years alone. With responsibility for financing health care delivered by hundreds of thousands of providers on behalf of tens of millions of beneficiaries, Medicare is inherently vulnerable to fraud, waste, and abuse. The program has proven to be a perpetually attractive target for exploitation, requiring constant vigilance and increasingly sophisticated approaches to protect the system from wrongdoing and abuse.

The Department of Health and Human Services (HHS) has begun to identify improper payments in its financial statements for the \$176 billion Medicare Fee-for-Service program. Spotlighting the program's payment of claims has led to a number of actions to help prevent improper payments. Between fiscal years 1996 and 1998, the estimated total of payments made in error in this program dropped from \$23.2 billion to \$12.6 billion. The reductions in erroneous payments were attributable largely to better claims documentation by providers rather than a reduction in improper billing practices. The HHS Inspector General's methodology was not designed to identify or measure the full extent of fraud and abuse in the

Medicare program or to detect all fraudulent schemes such as kickbacks or false claims for services not provided.³

Problems with abuse partly stem from the program's oversight structure. The Health Care Financing Administration (HCFA) delegates the review of claims to its contractors, yet its oversight of these contractors does not provide assurance that claims are paid appropriately. HCFA's contractors have allowed Medicare to pay claims that should have been paid by other insurers and have engaged in other prohibited practices such as falsifying claims and reports to HCFA.

Medicare Contractor Problems

In 1998, a major Medicare contractor settled a claim for \$140 million and pled guilty to eight felony counts because it was alleged to have

- allowed Medicare claims payments that should have been paid by private insurance,
- destroyed Medicare claims that should have been submitted by another contractor,
- periodically disconnected the required toll-free phone lines used for beneficiary inquiries,
- automatically paid claims under \$50, without checking whether services were uncovered or unnecessary,
- rushed claims through its processing system, shutting off computer edits designed to screen claims, and
- deleted, instead of suspending for review, claims with incorrect claim numbers

HCFA has taken steps to address management problems, but they remain hampered by financial management and information systems weaknesses. Moreover, the agency is limited by statute from increasing competition among contractors to enhance performance. For instance, the agency cannot choose nonhealth insurance companies to process outpatient physician and other practitioners' claims and is constrained to using contractors nominated by providers to process inpatient hospital and other institutional provider claims.

Medicare has also proven to be vulnerable to fraud by career criminal and organized crime groups posing as health care providers.⁴ These groups created sham medical clinics or other entities or used the names of

³Medicare: Methodology to Identify and Measure Improper Payments in the Medicare Program Does Not Include All Fraud (GAO/AIMD-00-69R, Feb. 4, 2000).

⁴Health Care: Fraud Schemes Committed by Career Criminals and Organized Criminal Groups and Impact on Consumers and Legitimate Health Care Providers (GAO/OSI-00-1R, Oct. 5, 1999).

legitimate providers to bill for services not provided or not medically necessary.

Medicare Fraud: "Rent-a-Patient" Scheme

In two South Florida cases, recruiters organized thousands of beneficiaries from, among other places, retirement communities and drove them to area clinics for rote examinations and unnecessary testing and treatment. Recruiters received a fee that they shared with each beneficiary. Beneficiaries understood that they should go elsewhere if they needed a "real doctor." Several licensed physicians participated in the scheme, in which they signed medical records for services they neither performed nor supervised. The clinics then billed Medicare and Medicaid or private insurance for services either not necessary or not performed. In one of the two cases, the clinics filed over \$120 million in fraudulent Medicare claims and \$1.5 million in fraudulent Medicaid claims.

Besides managing the fee-for-service program, HCFA has been grappling with the challenge of implementing the new managed care program—Medicare+Choice. Although the new program is premised on providing expanded choice to consumers, HCFA cannot ensure that the information provided to beneficiaries is timely, accurate, complete, or comparable or that beneficiaries receive the benefits to which they are entitled. For instance, one plan provided a drug benefit substantially less generous than what the plan had originally agreed to furnish, denying about 130,000 Medicare beneficiaries part of the benefit that Medicare paid for under the contract.

Strengthening business practices, controls, and oversight can mitigate program risks. Numerous initiatives are underway that promise to make progress. For instance, the HHS Inspector General and other federal and state agencies have banded together to fight fraud in five states in an effort called Operation Restore Trust. After the first year of operation, the effort yielded more than \$40 million in recoveries of payments for claims that were not allowed under Medicare rules, as well as convictions for fraud, imposition of civil monetary penalties, and the exclusion of providers from the program. Over the long term, techniques developed by Operation Restore Trust will be applied in all 50 states. Moreover, 1996 legislation provided HCFA with increased funding for program safeguard activities, such as pre- and post-review of medical claims and fraud investigation units. These activities historically return more than \$10 in savings for each dollar spent. Clearly more needs to be done, but HCFA's use of financial statements and performance targets shows how appropriate management attention can help in measuring the extent and addressing the causes of improper payments.

Related program design problems further complicate Medicare service delivery and make costs more difficult to control. The following are two illustrations.

- Medicare payments for medical equipment and supplies may not reflect market prices when providers' costs for some procedures, equipment, and supplies have declined over time due to competition and increased efficiency. For example, Medicare payments for such items as walkers, catheters, and glucose test strips are based on supplier charges allowed in 1986 and 1987; prices for these items have dropped significantly since that time. The agency also does not have an effective system to know the specific products it is paying for. HCFA requires suppliers to identify on Medicare claims HCFA billing codes—most of which cover a broad range of products of various types, qualities, and market prices—rather than the specific items billed. For example, one Medicare billing code is used for more than 200 different urological catheters, even though some of these catheters sell at a fraction of the price of others billed under the same code.⁵ We have recommended that HCFA require suppliers to identify specific items by including universal product numbers on claims forms.
- Efforts to control Medicare home health care spending need to be designed such that payment levels are adequate and that appropriate benefits are being provided. Between 1990 and 1997, Medicare spending for home health care rose at an annual rate of 25.2 percent, making it one of Medicare's fastest growing benefits. By 1997, home health care consumed about \$1 of every \$11 of Medicare outlays, or about \$17.8 billion. To begin to control spending, the Balanced Budget Act of 1997 mandated a prospective payment system (PPS), which will be implemented on October 1, 2000. The PPS will pay a fixed, pre-determined rate for each 60-day episode of care. The rate will be varied by a case-mix adjustment method that aims to adequately pay for patients with high services needs, yet not overpay for others with lower needs. Designing this mechanism requires detailed information, some of which is not yet available, about services and beneficiary characteristics. Currently, there are large unexplained variations in patients' needs and services provided. Until necessary information on home health standards is available and the large variations in home health use are better understood, placing limits on the profits that agencies can earn under the new PPS will prevent Medicare from paying excessively for services delivered to beneficiaries. If the PPS rate is set too high relative to the actual cost of providing services,

⁵Medicare: Need to Overhaul Costly Payment System for Medical Equipment and Supplies (GAO/HEHS-98-102, May 12, 1998).

a profit limit would prevent a windfall from occurring for some home health agencies.⁶

Supplemental Security Income

Supplemental Security Income (SSI) is the largest cash assistance program for the poor. In 1998, about 6.5 million SSI recipients received more than \$29 billion in benefits. Concern about the SSI program's vulnerability to fraud, waste, abuse, and mismanagement has increased congressional interest in ensuring that the SSI program focuses on individuals who have limited resources with which to meet their needs and that, to the extent possible, individuals rely on their own resources before turning to the SSI program for support.

Since its inception in 1974, the SSI program has been fraught with problems. These enduring management challenges—including program abuses and mismanagement, increasing SSI overpayments, and an inability to recover outstanding debt—continue. In fiscal year 1998 current and former recipients owed the Social Security Administration (SSA) more than \$3.3 billion—including over \$1 billion in newly detected overpayments for that year. Prior experience suggests that SSA is likely to recover about 15 percent of all outstanding overpayments. As we reported in prior work, SSI represents less than 8 percent of SSA's program expenditures but 37 percent of the calls to the fraud hotline and 24 percent of fraud convictions.

SSI Fraud and Abuse Problems

- SSA has estimated that overpayments to recipients in nursing homes may exceed \$100 million per year.
- In 1998, we reported that about \$648 million in SSI overpayments occurred because clients did not disclose their earnings or financial account information.
- In 1996 SSI erroneously paid \$5 million to 3,000 current and former prisoners in 13 county and local jails because the incarceration was not reported to SSA.
- Between 1990 and 1994, about 3,500 SSI recipients admitted transferring ownership of resources such as cars, cash, houses, and land valued at an estimated \$74 million in order to qualify for benefits.
- Medical providers suspected of defrauding health insurance companies, Medicare, or Medicaid furnished a portion of the supporting medical evidence for 6 percent of 208,000 SSI disabled recipients in six states that we examined.

⁶Medicare: Better Information Can Help Insure that Refinements to BBA Reforms Lead to Appropriate Payments (GAO/T-HEHS-00-14, Oct. 1, 1999).

SSA has taken steps to improve the financial integrity of the SSI system. For instance, to identify illegal use of benefits by prisoners, incentive payments have been provided to correctional institutions for information on inmate benefits. In December 1999, the Foster Care Independence Act of 1999 was enacted and now provides SSA with several additional tools to improve program performance and integrity. These tools include the authority to obtain applicant income and resource information from financial institutions, access state databases for essential eligibility information, impose a period of ineligibility for applicants who transfer assets in order to qualify for SSI benefits, and use credit bureaus, private collection agencies, interest levies, and other means to recover delinquent debt. The act's provisions respond to many of our prior recommendations.

To a large extent, many of the problems facing the SSI program are the result of more than 20 years of inattention to payment controls. Although many of the changes enacted by the Congress or implemented internally by SSA should result in improvements, additional changes will be necessary to reduce the vulnerability of the program to waste, fraud, abuse, and mismanagement. Much of the problem has its source in an organizational culture that treats the SSI welfare program much the same way as its "earned benefit" programs, disability insurance and old age and survivors insurance. As a result, program staff have focused more on quickly processing claims than on controlling program expenditures and verifying eligibility. For instance, the agency's work credit measurement system rewards cases processed, not verification of eligibility and attention to fraud and abuse. Continued congressional oversight and top management commitment will be necessary to ensure that the agency diligently implements the new tools provided for in the Foster Care Independence Act of 1999. The agency has been proven reluctant to use some tools provided by the Congress in the past; for example, they received authority to do tax refund offsets in 1984 to recover overpayments but just started using it in 1998.

SSA should also continue to work with the Congress in addressing other vulnerable areas not directly addressed in the legislation. For example, SSA should move forward in developing options for addressing complex SSI living arrangement and in-kind support and maintenance policies, which our prior work has found to be a major source of SSI overpayments. Consistent with our recent report recommendation, SSA should also intensify its efforts to identify and track suspicious medical providers and other middlemen who abuse the SSI program. This information could help SSA identify claims that should receive increased scrutiny and better target its investigations of current beneficiaries to determine if they should be removed from the program.

Other Improper Payments

Mr. Chairman, many other federal programs in addition to Medicare and SSI are vulnerable to improper payments. I would like to highlight for you today a recent report we issued which addresses a number of specific programmatic weaknesses brought to light in our high-risk series and in agency financial statement audits.⁷ We noted that fiscal year 1998 financial statement reports from nine agencies reported estimated improper payments of \$19.1 billion—including \$14.9 billion in improperly paid expenses and an additional \$4.2 billion of receivables that these agencies expect to collect. These estimates related to 17 federal programs that expended \$870 billion. The programs and related improper payment estimates include the following.

- Medicare Fee-for-Service (\$12.6 billion),
- Supplemental Security Income (\$1.6 billion),
- Food Stamps (\$1.4 billion),
- Old Age and Survivors Insurance (\$1.2 billion),
- Disability Insurance (\$941 million),
- Housing subsidies (\$857 million), and
- Veterans Benefits, Unemployment Insurance, and others (\$514 million).

GAO and agency inspectors general have identified many instances of fraud and internal control deficiencies which can lead to improper payments among these and other programs. Improper payments can arise from erroneous payments to beneficiaries as well as fraudulent or abusive practices by providers of services.

⁷ *Financial Management: Increased Attention Needed to Prevent Billions in Improper Payments* (GAO/AIMD-00-10, Oct. 1999).

Improper Payment Problems

HUD assisted housing – A minister conspired with a real estate agent to defraud federal housing officials. The minister made false statements in applying for a \$5.4 million HUD-insured mortgage for Bethel Village, a failed project of a religious affiliation to build an assisted living retirement development. The false statements included a letter, with the forged signature of the affiliation general secretary, that was sent to federal housing officials guaranteeing \$750,000 in conventional funding for the project in order to obtain FHA mortgage insurance for the loan. (Source: Department of Housing and Urban Development, Office of Inspector General Semiannual Report to the Congress, Apr. 1, 1999-Sept. 30, 1999)

Food Stamps – 147 out of 230 statistically selected Food Stamp participants whose social security numbers appeared in more than one state received food stamp benefits in more than one state simultaneously. This resulted in food stamp overissuances of \$43,000 for this group. In another case, from 1993 through 1998, a Cleveland, Ohio, grocer organized the illegal redemption of \$8.6 million in food stamps for himself and other Cleveland area grocers. (Source: U.S. Department of Agriculture, Office of Inspector General Semiannual Report to the Congress, Apr. 1, 1999-Sept. 30, 1999)

Veterans benefits – The spouse of a veteran, who had been collecting disability benefits for injuries sustained during his military service, failed to report her husband's death in 1983. VA benefits continued to be sent in the husband's name for more than 15 years. The widow converted more than \$243,000 of her deceased husband's benefit payments for her own use. VA computer records discovered this case eventually. (Source: Department of Veterans Affairs, Office of the Inspector General, Semiannual Report to the Congress, Apr. 1, 1999-Sept. 30, 1999)

Social security benefits – A husband and wife embezzled Social Security benefits intended for the wife's deceased parents whose deaths were not reported to the Social Security Administration. Benefits of \$100,357 continued to be paid into the deceased couple's bank account. After their deaths, the daughter and her husband assumed the identities of the deceased parents and continued to access the funds for their own uses. (Source: Social Security Administration, Office of the Inspector General, Report to the Congress Oct. 1, 1998-Sept. 30, 1999, as incorporated in the Social Security Accountability Report for Fiscal Year 1999)

While financial statement disclosures draw attention to the need to address this problem, the amount of improper payments is greater than that disclosed thus far in agency financial statements. Audit reports from GAO and agency inspectors general have identified other agencies that have made improper payments but did not include estimates in their financial statements. For the Earned Income Tax Credit (EITC) program, in fiscal year 1998 when IRS examined a subset of returns with suspected EITC errors, it found that over two-thirds were invalid. This subset was not generalizable to all EITC claimants and IRS' financial statements did not contain any estimate of EITC error rates for the universe of returns claiming the credit.

In some cases, information is insufficient to provide systematic estimates of improper payments for other important programs. For instance, HHS has not estimated improper payments for the Medicaid program, which had \$108 billion in federal outlays for fiscal year 1999. However, in recent work, we have concluded that the size and structure of this program makes it inherently vulnerable to exploitation. As a third-party payer, Medicaid reimburses for services provided by others and cannot, as a practical matter, police each claim for reimbursement. The program relies on providers, some of whom have incentives to exploit third-party payers like Medicaid, and program administrators, who are sometimes reluctant to impose controls perceived as burdensome for fear of discouraging provider participation. Common Medicaid fraud and abuse schemes fall into three broad groups: improper billing practices, misrepresentations of professional qualifications, and improper business practices such as kickbacks, self-referrals, or collusion.

Medicaid Fraud and Abuse Problems

Billing Fraud – A psychiatrist operated a “psychotherapy mill” where parents were enticed to enroll their children in “free” enrichment programs such as after-school tutoring, field trips, and supervised recreation in exchange for their children’s Medicaid numbers. The psychiatrist then billed Medicaid for services not provided. In concert with another doctor, Medicaid was fraudulently charged \$421,000. The defendants pled guilty, paid fines and restitution, and received probation. (Source: Georgia State Health Care Fraud Control Unit)

Misrepresentation – A woman who never attended, graduated, or received a degree from a nursing school, presented a false nursing license to several nursing homes that employed her for at least 5 years. Her substandard care prompted an investigation, which led to her conviction of felony Medicaid fraud and other charges. She was sentenced to probation and either restitution or community service. (Source: Ohio Attorney General’s Health Care Fraud Section)

Business practices fraud – Claims submitted by two businessmen netted \$10 million in excess Medicaid payments related to phony contracts with nursing homes to a shell company. They were both imprisoned and fined, and the pair agreed to restitution of \$6 million to the state Medicaid program. (Source: Georgia State Health Care Fraud Control Unit)

Illicit diversion of Medicaid covered prescription drugs has proven to be a chronic problem. Such diversion can involve pharmacists who routinely add drugs to legitimate prescriptions and keep the extra for sale to others; individuals who provide recipients with abusable drugs in exchange for subsequent illicit use of their Medicaid recipient numbers; and clinics that provide inappropriate prescriptions to Medicaid recipients who trade them for cash or merchandise or have them filled and then sell the drugs

themselves on the street. The Congress could encourage HHS to increase its efforts as a partner with states to ensure that states' efforts to prevent and detect fraud in the Medicaid program are as effective as possible.⁸

Medicaid Prescription Drug Fraud Problems

A criminal ring that included a doctor and others bilked the New Jersey Medicaid program out of hundreds of thousands of dollars. One scheme involved (1) doctors who wrote bogus prescriptions to Medicaid recipients in exchange for cash payments, (2) other recipients who served as the drug "buyers," purchasing drugs using their own or false Medicaid cards and then selling them back to the ring, and (3) "runners" who brought the pills to a stash house for "packagers" who boxed the pills for resale to pharmacists in New York and New Jersey. The pharmacists would then use the repackaged pills to restock inventory. Sales of the drugs in New York yielded the ring \$30,000 or more in cash on a single trip. This case was the first health care fraud case prosecuted under New Jersey's racketeering statute—one of a number of steps the state has taken to prevent fraud against Medicaid, Medicare, and private insurance.

With billions of dollars at risk, agencies need to continually and closely safeguard resources entrusted to them and assign a high priority to reducing improper payments. The incidence of improper payments can be reduced by strengthening business practices and developing targets or goals for mitigating the problem. A first step for some agencies involves the development of reliable estimates and reporting of the nature and extent of improper payments. Without this fundamental knowledge, agencies cannot be fully informed about their magnitude or trends, nor can they systematically pinpoint or target mitigation strategies. We noted in this report that it was through the discipline of annual audited financial statements and the development of performance goals—key components of the management reforms prompted by the Chief Financial Officers Act and the Government Performance and Results Act—that some agencies are taking steps to mitigate the risk of improper payments.

HUD Programs

In 1994, we designated HUD programs as a high-risk area because our work, and that of others, such as the HUD Inspector General, had identified four serious, longstanding, departmentwide management problems that, taken together, placed the integrity and accountability of HUD's programs at high risk. These deficiencies included weak internal controls, an ineffective organizational structure, an insufficient mix of staff with the proper skills, and inadequate information and financial management systems. We concluded that, while HUD had efforts

⁸ *Medicaid: Federal and State Leadership Needed to Control Fraud and Abuse* (GAO/T-HEHS-00-30, Nov. 9, 1999).

underway to address the numerous and severe problems impacting program management, billions of dollars across most of the agency's programs were at risk.

Since 1995, we have reported that HUD has taken a number of actions to address its management deficiencies and has made credible progress towards improving its management. For example, the department improved its financial reporting to the extent that its Inspector General was able to provide qualified opinions on its financial statements for fiscal years 1996 and 1997 and an unqualified opinion for fiscal year 1998. In 1999, we noted that HUD's Secretary and leadership team have given top priority to addressing the department's management deficiencies. A major contributor to HUD's progress was the June 1997 2020 Management Reform Plan, which called for reducing the number of programs, retraining staff, reorganizing the field offices, consolidating processes and functions into specialized centers, and modernizing and integrating information and financial management systems. However, in 1999 we also noted that internal control weaknesses—such as inadequate monitoring of contractors, developers, and other agents implementing HUD programs—and problems with information and financial management systems—such as inaccurate and untimely data—persisted. And, we reported it was too soon to tell whether HUD's reforms to address organizational and staff problems would resolve the major deficiencies that others and we had identified.

Since then, we have undertaken a number of assignments to examine HUD's efforts to improve its programs. For example, we have reported that HUD is likely to spend millions of dollars, miss milestones, and still not meet its objective of developing and fully deploying an integrated financial management system because it had not yet finalized detailed project plans or cost and schedule estimates for this effort. Also, both our office and HUD's Office of the Inspector General have reported weaknesses in HUD's oversight of its single-family inventory, which are properties acquired by HUD when borrowers default on single-family mortgages insured by HUD. In 1998, we reported that HUD did not have adequate systems in place to oversee contractors who were responsible for managing its inventory of properties.⁹ Our physical inspection of selected properties identified serious problems including vandalism, maintenance problems, and safety hazards that may have decreased marketability, increased HUD's holding costs and, in some cases, threatened the health and safety of neighbors and potential buyers.

⁹ *Single-Family Housing: Improvements Needed in HUD's Oversight of Property Management Contractors* (GAO/RCED-98-65, Mar. 27, 1998).

HUD's inventory of properties grew from about 39,000 in 1998 to about 50,000 properties in 1999. In 1999, HUD implemented a new approach to managing its acquired properties, under which contractors assumed full responsibility for the inventory. HUD awarded contracts to these contractors totaling \$927 million over 5 years and divided the country into 16 contract areas. One contractor, InTown Management Group, received 7 of the 16 contracts covering 28 states and comprising about 11,000 homes—in other words, almost 40 percent of the total workload.

Because InTown failed to adequately maintain properties or make them available for sale, HUD was forced to terminate all seven of InTown's contracts before the end of 1999. InTown filed for bankruptcy, while owing money to many of its subcontractors and these subcontractors now have filed liens against properties that InTown was responsible for managing and marketing. According to an official in HUD's Single-Family Housing Office, HUD has decided to pay off some of the liens. HUD also has awarded contracts to dispose of properties in 22 of the 28 states InTown had responsibility for. According to the Single-Family Housing Official, HUD issued a request for bids to obtain contractors for the remaining six states and expects to award these contracts by April 2000. We are presently reviewing the status of the contracts and HUD's inventory of acquired properties. We will report the results of our work this spring.

DOD Management

Six of our 26 high-risk areas relate to longstanding DOD management problems. The department's size, the complexity of its mission, and the far-flung breadth and scope of its operations present major management challenges in a number of areas.

Despite recent steps to improve financial management, DOD continues to face serious weaknesses. These weaknesses undermine DOD's ability to manage an estimated \$280 billion budget and \$1 trillion in assets. No major part of DOD is able to pass the test of an independent financial statement audit. These continuing financial management problems have real consequences for program management and resource allocation. For instance, DOD's records do not consistently reflect the number or location of its inventories and weapons systems. Auditors reported that DOD's records for F-4 engines and service craft were unreliable and that on-hand inventory quantities differed by 23 percent from inventory records at selected locations. These problems increase the risk that inventory managers may request funds for items that may already be on hand.

DOD cannot properly account for billions of dollars of basic transactions, leaving the agency vulnerable to the misuse of appropriated funds. DOD

has not been able to reconcile its records with Treasury's records—with a \$9.6 billion difference at the end of fiscal year 1998. Auditors reported that the Air Force Depot Management Activity—a component of one of the department's working capital funds—may have obligated \$1.1 billion more than it had available as of September 30, 1998. Also at the end of fiscal year 1998, \$4.3 billion in expired budget authority was cancelled, another possible consequence of this inability to track obligations and expenditures.

Financial management weaknesses are reflected in DOD's procurement process where the agency spends more than \$100 billion a year contracting for goods and services. DOD continues to overpay contractors, although the full extent of overpayments is not known. However, we do know that from fiscal year 1994 through 1998, defense contractors returned about \$4.6 billion in overpayments, an average of about \$920 million a year. According to the Defense Finance and Accounting Services' Columbus Center, contractors returned about \$670 million in fiscal year 1999.

DOD Contracting Problems

In a July 1999, study at 13 contractor locations, we found that these contractors took about a year, on average, before refunding overpayments of \$56.2 million. Four of the 13 contractors were retaining overpayments totaling about \$1.1 million, which they subsequently refunded due to our work. Under current law, however, there is no requirement for contractors who have been overpaid to notify the government of overpayments or return overpayments prior to the government issuing a written demand for their return. In response to recommendations we made, DOD said it would amend the regulations and contract payment clauses to add a requirement that contractors notify the contracting officer when overpayments are discovered.

We have identified DOD's management of inventories (spare and repair parts, clothing, medical supplies, and other items to support the operating forces) as a high-risk area because levels of inventory were too high and management systems and procedures were ineffective. Ensuring the accuracy of inventory requirements, providing adequate visibility over operating materials and supplies, and reducing the vulnerability of in-transit inventory to waste, fraud and abuse remain areas of concern. The Congress has enacted legislation that requires DOD to implement best commercial practices in its acquisition and distribution of inventory items, and the Secretary of Defense has identified reengineered business practices as a key component of the Defense Reform Initiative. While these actions hold promise for the future, our recent work indicates that general areas of concern still exist.

DOD Inventory Problems

In November 1999, we reported that the Air Force did not always cancel purchases that exceeded current operating requirements. The Air Force canceled contracts for \$5.5 million of the \$162.4 million excess inventory that we reviewed—including such things as thermal insulation tiles for the B-2 aircraft and turbine nozzles for the F-110 engine—but it could have canceled more. For example, a requirement for a rotor blade used on the T-33 engine protected over 4 years of supply, thus preventing an additional 13,192 blades from being considered for cancellation.

Lastly, DOD's weapons systems acquisitions exhibit pervasive problems that lead to wasteful and ineffective systems. The agency spends over \$80 billion annually to research, develop, and acquire weapon systems. Although DOD has many acquisition reform initiatives in process, key weapon system problems persist arising from (1) questionable requirements and solutions that are not the most cost-effective; (2) unrealistic cost, schedule, and performance estimates; (3) questionable program affordability; and (4) the use of high-risk acquisition strategies. Weapon systems acquisitions remains a high-risk area, as indicated by some of the following examples from our work in the last year.

DOD Weapons Acquisitions Problems

The Navy and Air Force plan to acquire 4,200 of the antiarmor Joint Standoff Weapon—a medium-range aircraft-delivered missile for attacking tanks and other armored vehicles—even though it is not effective against moving targets. The Air Force and Navy are implementing acquisition reform measures in the development of the Joint Air-to-Surface Standoff Missile that may not achieve their full cost and schedule benefits because of the services' historical practice of moving to the next stage of development prematurely.

The Army's Comanche Helicopter development program is being restructured for the fifth time in 10 years, due to uncertain and changing requirements and unattainable cost and schedule estimates. This latest restructured development plan still contains significant risks of further cost overruns, schedule delays, and degraded performance.

The Army procured 6,550 High Mobility Trailers that are not useable or suitable because it awarded a multiyear production contract without first demonstrating that the design would meet its requirements.

Although the number of armored targets (e.g., tanks) in current Defense plans is 80 percent less than in 1990, the military services plan to spend \$17 billion to acquire more new and improved antiarmor weapons. This would be in addition to the billions spent since the end of the Cold War to maintain and improve their large inventory of 40 different types of weapons for attacking tanks and other armored vehicles.

These are common examples that are the predictable consequences of the acquisition environment. The competition for funding when a program is launched encourages aspiring DOD program managers to include performance features that rely on immature technologies. In this environment, risks in the form of ambitious technology advancements and tight cost and schedule estimates are accepted as necessary for a successful program start. Problems or indications that the estimates are decaying do not help sustain programs in later years, and thus admission of them is implicitly discouraged. There are few rewards for discovering and recognizing potential problems early in program development. Acquisition reforms underway by DOD have the potential for improving weapon system outcomes and DOD's leadership is genuinely committed to making a difference in the status quo. However, lasting improvements in program outcomes will not come until the incentives that drive the process are changed. Such changes will have to come in the form of the decisions made on individual programs.

Student Financial Aid

The Department of Education is responsible for collecting more than \$150 billion in outstanding student loans. Its data systems track about 93 million student loans and 15 million grants. In fiscal year 1998 more than 8.5 million students received more than \$48 billion in federal student financial aid through programs administered by the department.

By their very nature these programs are vulnerable to waste, fraud, abuse, and mismanagement. Not only do they target a high-risk population, but also the programs have been designed to operate separately with different rules, processes, and data systems. Further adding to the vulnerability of these programs is the number of participants—not just millions of students and thousands of schools, but also thousands of lenders, guaranty agencies, third-party servicers, and contractors. The federal government bears most of the risk when students default on loans. Moreover, mismanagement by the Department of Education exacerbated the potential for abuses—weak gatekeeping allowed proprietary trade schools with poor educational programs and high student default rates to remain in the program.

Student Loan Problems

The Education Office of Inspector General reported that, between July 1, 1994, and December 31, 1996, 708 borrowers had loans totaling \$3.89 million discharged because guaranty agencies received a notice of their death. These borrowers were reported to have subsequently earned wages. For example, in 1997, 367 of these borrowers earned reported wages up to \$30,000, 191 borrowers between \$30,000 and \$50,000, and 150 borrowers more than \$50,000.

One borrower had student loans of \$8,517 forgiven because the guaranty agency determined, based on certification by the borrower's doctor, that he was totally and permanently disabled for work or school. There was no requirement for the agency to verify the borrower's disability or employment status with the state's employment agency. However, about 6 months later, the borrower received the first of four additional student loans totaling \$9565.

Between 1996 and 1999, an individual allegedly submitted 37 applications falsely claiming enrollment at four schools in Mexico, while he was on federal supervised release. (He had previously been convicted of defrauding the education program of \$160,000 by falsely claiming attendance at a foreign medical school.) The 37 applications, which he allegedly submitted to four guaranty agencies, resulted in the disbursement of \$319,680. (Source: U.S. Department of Education, Office of Inspector General Semiannual Report to the Congress, No. 39, Apr. 1, 1999-Sept. 30, 1999)

Proprietary school owners mailed forged documents to loan servicing agencies in an effort to fraudulently reduce their school's student loan default rate to remain in the Federal Family Education Loan (FFEL) Program. The owners pleaded guilty to mail fraud, student financial aid fraud, money laundering and obstruction of justice. The 3-year scheme defrauded the Department of Education out of \$846,000 while the school avoided its eligibility from being terminated. (Source: U.S. Department of Education, Office of Inspector General Semiannual Report to Congress, No. 38, Oct. 1, 1998-Mar. 31, 1999)

Progress has been made. The department has made strides to improve its management of the program and has worked to effectively screen out schools with bad default records. Prior to the 1998 Higher Education Act amendments, students underreporting their income in applying for student aid had a better chance of never being caught. Over 300 students receiving Pell grants underreported their adjusted gross income by over \$100,000 each. Fortunately, the 1998 amendments directed Education and IRS to cooperate in verifying student income, but the effectiveness of this provision will be largely dependent on how well the two agencies work together. The default rate has declined from a high of 22.4 percent in fiscal year 1990 to 8.8 percent in fiscal year 1997. Nonetheless, in fiscal year 1997 the federal government paid out \$3.3 billion in defaulted loans.

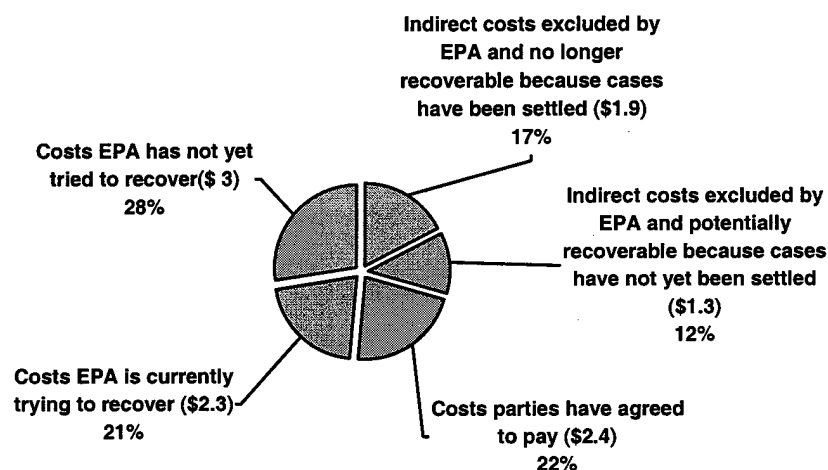
Superfund Management

The Department of Education lacks the financial information necessary to effectively budget for and manage its student aid programs and needs to work on improving the accuracy and completeness of its grant payments system. In addition, its lack of an integrated information management system means officials often lack accurate, complete, and timely data to manage and oversee aid programs.

GAO continues to have three concerns with agencies' management of the Superfund hazardous waste cleanup program. First, some agencies do not have a strategy for allocating resources according to risk. Since the Department of Energy (DOE) does not require facilities to compete for cleanup dollars, it may fund cleanups addressing a lower risk at one facility while a higher risk site at another facility goes unfunded. Another agency, the Bureau of Land Management (BLM), does not have a complete inventory of sites or a cleanup strategy in place and as a result potential hazards may expose the public to needless risks. For instance, BLM was not aware of one hazardous site until a child wandered onto the abandoned manufacturing site, came into contact with a contaminated rock, and fell ill.

Second, although the Environmental Protection Agency (EPA) has succeeded in getting responsible parties to pay for 70 percent of Superfund long-term cleanups, it has been less successful in recovering its full costs from parties when it conducts the cleanup. Figure 1 shows the problem.

Figure 1: EPA Could Lose the Chance to Recover Billions It Has Spent on Superfund (Dollars in billions)



Source: GAO's presentation of data from EPA.

At the end of fiscal year 1998, EPA had agreements to recover only \$2.4 billion, about 22 percent, of about \$11 billion it had spent on the Superfund program.¹⁰ EPA's method for calculating indirect costs caused it to lose the chance to recover \$1.9 billion of the \$11 billion in settlement agreements already reached. This problem could lose the agency up to an additional \$1.3 billion in recoveries in cases under negotiation. EPA has updated the methodology for calculating and recovering indirect costs but has yet to implement it. The agency estimates that, with this new methodology, it could recover nearly half of the indirect costs that it currently excludes from settlements under negotiation.

Finally, EPA also needs to improve its contract management. The agency does not always negotiate the best contract price for the government. Although EPA is now using more independent estimating methodologies

¹⁰ EPA had spent another \$5 billion that it considers unrecoverable for reasons such as the lack of a financially viable party to cover the costs.

to help it negotiate contract prices than in the past, some of its regional staff still lacked the necessary cost estimating experience and training to help them negotiate best prices. In addition, EPA has more contract capacity in place than work available for the contractors. For example, EPA was reluctant to close out one contractor with high program support costs due to excess staff and facilities, even though it did not have sufficient cleanup work for the contractor. EPA has not effectively limited contractors' costs for program support, such as rent and managers' salaries. In April 1999, we reported that such costs ranged from 16 to 76 percent of total cleanup costs for new contracts, exceeding EPA's target of 11 percent. The agency is beginning to take additional steps to address this problem.

Reducing and Resolving Risk in Federal Programs

High-risk areas and improper payment problems reflect deeply rooted weaknesses in federal financial and program management, as well as more fundamental tensions associated with conflicting statutory goals and complex program delivery systems and mechanisms. The government's financial systems are all too often unable to perform the most rudimentary bookkeeping for federal entities, many of which are engaged in financial transactions whose magnitude, complexity, and risk exceeds those of large private companies. Weaknesses in underlying financial systems make agencies vulnerable by undermining their ability to safeguard assets, account for appropriated resources, or measure the costs of their activities. The agencies' inability to account for substantial liabilities, assets, net costs, or improper payments were among the factors that prevented us from being able to form an opinion on the U.S. government's consolidated financial statements for the two years that we have been performing this audit.¹¹ The lack of reliable financial information limits the capacity to even understand the dimensions of the risks the government faces—the first step in pinpointing strategies to mitigate problems. Agency efforts to implement the Chief Financial Officers (CFO) Act are prompting steady improvements, but, as shown in table 2, many federal agencies were still unable to obtain a clean audit opinion on their financial statements in fiscal year 1998.

¹¹ *Financial Audit: 1998 Financial Report of the United States Government* (GAO/AIMD-99-130, Mar. 31, 1999).

Table 2: Audit Opinions for the 24 CFO Agencies' Fiscal Year 1998 Financial Statements

Opinions	Agencies
<i>Unqualified</i> audit opinions: The financial statements are reliable in all material respects.	<ul style="list-style-type: none"> •Department of Housing and Urban Development •Department of the Interior •Department of Labor •Department of State •Environmental Protection Agency •Federal Emergency Management Agency •General Services Administration •National Aeronautics and Space Administration •National Science Foundation •Nuclear Regulatory Commission •Small Business Administration •Social Security Administration
<i>Qualified</i> audit opinions: Except for some item(s), which are mentioned in the auditor's report, the financial statements are reliable in all material respects.	<ul style="list-style-type: none"> •Department of Health and Human Services •Department of Energy •Department of the Treasury
<i>Disclaimers:</i> The auditor does not know if the financial statements are reliable in all material respects.	<ul style="list-style-type: none"> •Department of Veterans Affairs •Department of Agriculture •Department of Defense •Department of Education •Department of Justice •Department of Transportation •U.S. Agency for International Development
<i>Other:</i>	<ul style="list-style-type: none"> •Department of Commerce received an unqualified opinion on its balance sheet and a disclaimer on its other financial statements. •Office of Personnel Management's Retirement Program, Life Insurance Program, and Health Benefits Insurance Program received unqualified opinions; the Revolving Funds and the Salaries and Expenses Accounts received disclaimers.

Source: Individual agency reports on results of audits of fiscal year 1998 financial statements, as of October 1999.

While audited financial statements are essential to identify serious financial management problems and to ensure, and provide an annual public scorecard on, accountability, an unqualified audit opinion is not an end in itself. The CFO Act is focused on providing accurate, timely, and relevant financial information needed for management decisionmaking and accountability, on a systematic basis, throughout the year. Efforts to

obtain reliable year-end data that are not backed up by fundamental improvements in underlying financial management systems and operations that ensure the routine production of accurate, timely, and relevant data to support ongoing program management and accountability will not achieve the intended results of the CFO Act over the long-term.

For example, after several years of concerted effort by IRS and GAO, for fiscal year 1997 we were able to conclude for the first time that IRS' custodial financial statements, covering over \$1.6 trillion in tax revenue, were reliable. Prior to fiscal year 1997, weaknesses in IRS' internal controls and financial management systems prevented it from producing reliable year-end financial information. Our conclusion that the fiscal year 1997 statements were reliable was accomplished only after extensive use of ad hoc programming by IRS to extract data from its systems, followed by numerous adjustments to these data totaling tens of billions of dollars to produce final financial statements.

Serious and chronic financial management problems will continue to make agencies' programs and activities vulnerable to risk, waste, and mismanagement. Accordingly, we have added financial management at selected agencies to our high-risk list in recent years. Financial management at DOD and IRS were both added in 1995. The U.S. Forest Service and the Federal Aviation Administration (FAA) were added in 1999. These agencies face substantial challenges in producing reliable financial statements and reports due to serious deficiencies in financial systems and cost accounting. Although these agencies are making progress in addressing their financial management weaknesses, much remains to be done before full accountability can be achieved. Full accountability includes not only obtaining a clean audit opinion but also addressing internal control weaknesses which hamper their ability to keep track of their assets, liabilities, revenues, and expenses on an ongoing basis. For example, both Forest Service and FAA need to implement systems that are capable of properly recording, tracking, and depreciating property and equipment from acquisition to disposition.

Pervasive deficiencies in oversight, monitoring, and information systems by federal agencies and by their agents in state and local governments and in the private sector also contribute to high-risk problems. In such areas as HUD's assisted housing programs and Education's student loans, local providers had primarily based eligibility on applicants' self-reported income, with little independent verification. These weaknesses in verifying the eligibility of beneficiaries have contributed to improper payments and are reinforced by fragmented organizational responsibilities and persistent human capital deficiencies. Organizational fragmentation, for instance,

inhibits the systems integration necessary to prevent the needless duplicate entry of data in DOD's payment process that increases the probability of errors. Persistent staff skills mismatches have undermined HUD's capacity to effectively mitigate losses from foreclosures on its properties, manage troubled assets and prevent losses due to impending defaults on insured mortgages.

Resolving federal management deficiencies is particularly important due to the complex delivery systems used in most federal programs. The federal government often relies on a network of third parties—state and local governments, nonprofit agencies and businesses—to implement federal goals. Third parties bring substantial advantages to the implementation of federal initiatives by engaging local interests and resources. However, “third party government” poses challenges as well, since federal programs rely on the integrity, skill, and support of independent agents with their own goals and constituencies. Transferring the responsibility for the delivery of services to third parties does not relieve federal officials from being accountable for their performance. Many of our high-risk and improper payment areas are vulnerable due to the known challenges of federal agency oversight of third parties that play a critical role in program implementation, including insurance contractors for Medicare; facilities management contractors at DOE; banks and state guaranty agencies for student loans; public housing authorities, mortgage lenders and contractors for HUD's housing programs; or states for food stamps and Medicaid.

Federal executive agencies are critical actors, but they operate within a broader statutory environment that can also play a role in promoting or mitigating risk. The design and incentives associated with federal programs can often lay the groundwork for subsequent program vulnerability and delivery problems, while improvements can protect programs. For instance, the farm loan program reduced its delinquencies from 41 to 28 percent of its outstanding loan principal in 1997, due partly to earlier legislative changes prohibiting delinquent borrowers from obtaining further loans. However, recent legislation easing these reforms, along with deterioration in the farm economy, threaten to reverse this trend. In another area, high student loan default rates were brought down when legislation provided for risk sharing by participating lending institutions and greater agency control over the certification of schools for participation in the program. Conflicting statutory goals can also complicate program administration; for example, programs emphasizing speed of service—such as mandates placed on IRS to process tax refunds within 45 days, or the urgency for the Federal Emergency Management

Administration to provide disaster relief quickly—can confound the efforts of program administrators to reduce improper payments.

Mr. Chairman, the deep-seated nature of many of these problems does not mean they are immutable. In fact, we have noted substantial improvements in many of these areas. The point I want to make is that change is possible, but only with concerted and sustained attention of both executive agencies and often the Congress itself. Persistent improvements in information, systems, human capital, and program design are typically essential for progress to be made. Congressional oversight in particular is critical to stimulate and support the initiatives of agencies to address these problems.

The experience of the U.S. Customs Service (Customs) in overcoming its vulnerability to high risk is instructive. In 1991, we added Customs to our high-risk list due to major weaknesses in its management and organizational structure that diminished its ability to detect trade violations on imported cargo; collect applicable duties, taxes, and fees; control financial resources; and report on financial operations. Since then, Customs has made considerable progress in addressing its financial management weaknesses, receiving unqualified audit opinions for the past three fiscal years. Coupled with a major reorganization, Customs has also made major improvements in focusing on enforcement efforts and measuring noncompliance with trade laws, preventing or detecting any duplicate or excessive refunds, and collecting delinquent receivables. Sustained management commitment was essential for progress. It will be important for such management commitment and congressional oversight to continue in order to prevent these weaknesses from recurring. We will continue to monitor Customs' efforts.

Improving the Economy and Efficiency of Federal Activities

Addressing high-risk areas promises to diminish the vulnerability of federal programs to fraud and abuse and reduce waste. In addition, other opportunities are present to increase the economy and efficiency of federal programs and activities. Effective congressional oversight can improve performance accountability and financial integrity of existing programs by addressing the delivery strategies and structures used to implement federal programs. Such an initiative can pursue opportunities for the consolidation or coordination of programs with similar objectives; the reengineering and streamlining of federal processes; the application of market-based models and prices to encourage the best use of federal resources and the full collection of owed revenues and debts; and the integration of performance measurement with program management to

identify more efficient and effective approaches to achieve federal objectives.

The following examples from our work provide illustrations of programs and activities that could be considered for reform to address costly and inefficient delivery approaches, fragmented and duplicative organizational facilities and locations, or outmoded management structures.

- DOD's efforts at streamlining, consolidating, and possibly privatizing infrastructure activities should continue to be encouraged. For fiscal year 1998, DOD estimated that about \$147 billion, or 58 percent of its budget, was spent for infrastructure requirements. Recognizing that it must make better use of its scarce resources, DOD announced the Defense Reform Initiative (DRI) in November 1997. Through this program, DOD hoped to create a revolution in business affairs that would streamline and substantially improve the economy and efficiency of its business operations. A major thrust of the DRI was to reduce unneeded infrastructure, primarily through a number of initiatives designed to reduce the cost of DOD's operations and support activities. Included in these initiatives were (1) demolishing and disposing 80 million square feet of excess space at military facilities, (2) reducing the number of Defense Information System Agency major data processing centers from 16 to 6, (3) reducing the number of Defense Finance and Accounting Service operating locations from 19 to 11, (4) closing unneeded research, development, and test facilities, and (5) avoiding hundreds of millions of dollars in future capital expenditures by privatizing utility systems (electric, natural gas, water, and sewer) at military bases. The results of DOD's efforts in reducing infrastructure are mixed, but continued progress on this initiative can help DOD save significant amounts of operations and support money.¹²
- The Department of State maintains a physical presence—embassies, consulates, and other offices in the capital and other cities—in over 160 countries. About 18,000 direct-hire employees—over 6,400 from State and the rest from at least 27 other federal agencies—and over 35,000 locally hired and contract staff work overseas at a total of more than 250 diplomatic posts. It costs over \$200,000 annually to station an American overseas, which is about two times as much as for Washington-based staff. In November 1999, the Overseas Presence Advisory Panel, established by the Secretary of State to review how the United States carries out its overseas activities, concluded that there is no process in place to “rightsize” posts as missions change. Although the panel did not specify

¹²Defense Reform Initiative: Organization, Status, and Challenges (GAO/NSIAD-99-87, Apr. 21, 1999).

the amount of savings that could be achieved through streamlining posts, it expressed the belief that the savings would be substantial and recommended the formation of an interagency committee to review and restructure every overseas post. State has not said how it will respond to the panel's recommendations. Security and diplomacy requirements are directly linked to the size of the overseas workforce, and the Congress should be involved in any significant restructuring.¹³

- Since 1982, many panels, commissions, and task forces, and several GAO studies have addressed how DOE could achieve operational efficiencies in its research and development facilities. Recommendations have included focusing unclear missions, aligning laboratory activities with DOE goals, consolidating facilities, and replacing cumbersome, inefficient management structures. In particular, with the end of the Cold War, DOE may no longer need to maintain three nuclear weapons laboratories. For example, Los Alamos officials have estimated that consolidating the nuclear weapons functions of the Lawrence Livermore facility into the Los Alamos Laboratory could save about \$200 million in annual operating costs. A DOE-chartered task force—the 1995 Task Force on Alternative Futures for the Department of Energy National Laboratories—reported that DOE's entire laboratory system could be reduced productively by eliminating obsolete and redundant missions and support infrastructure.¹⁴ Moreover, substantial portions of the laboratory budgets are being spent on infrastructure.
- Duplication and overlap in federal land management could be reduced and operations streamlined through a collaborative federal land management strategy. The four major federal land management agencies—the National Park Service, the Fish and Wildlife Service, and BLM within the Department of Interior, and the Forest Service within the U.S. Department of Agriculture (USDA)—have grown increasingly similar over time, while federal land management missions have become more complex. Budgetary constraints and better understanding of natural ecosystems, whose boundaries are often not consistent with existing jurisdictional and administrative boundaries of the separate agencies, demand that the agencies find ways to refocus, combine, or eliminate certain functions, systems, programs, activities, and field locations. To improve the efficiency and effectiveness of federal land management, the Congress

¹³State Department: *Major Management Challenges and Program Risks* (GAO/T-NSIAD/AIMD-99-99, Mar. 4, 1999) and *Overseas Presence: Staffing at U.S. Diplomatic Posts* (GAO/NSIAD-95-50FS, Dec. 28, 1994).

¹⁴Department of Energy: *Need to Address Longstanding Management Weaknesses* (GAO/T-RCED-99-255, July 13, 1999) and *Department of Energy: A Framework for Restructuring DOE and Its Missions* (GAO/RCED-95-197, Aug. 21, 1995).

might consider either reorganizing the current organizational structures or streamlining these structures by integrating and coordinating current functions and programs.¹⁵

- The federal system to ensure the safety and quality of the nation's food is inefficient and outdated. The current food safety system suffers from overlapping and duplicative inspections, poor coordination, and inefficient allocation of resources. For example within USDA, the Food Safety and Inspection Service (FSIS) is responsible for the safety of meat, poultry, and some eggs and egg products, while the Food and Drug Administration (FDA) is responsible for the safety of most other foods. FSIS, FDA, and 10 other federal agencies administer over 35 different laws that oversee food safety. Given this environment, the Congress could consider consolidating federal food safety agencies and activities under a single food safety inspection agency with a uniform set of food safety laws.¹⁶
- The USDA Farm Service Agency (FSA) should continue to consolidate its county office field structure by closing more of its small county offices. In response to the Agriculture Reorganization Act, FSA has closed over 370 county offices and reduced its county office staff by about 28 percent. However, FSA still has nearly 2,400 county offices, including 673 small county offices that have three or fewer permanent full-time employees. These smaller offices generally cannot take advantage of certain economies of scale. For example, USDA's workload data indicate that small county offices spend about 46 percent of their time on such fixed administrative activities as obtaining and managing office space and processing paperwork related to payroll. In comparison, larger county offices spend only 32 percent of their time on these administrative activities.¹⁷
- USDA's Rural Utilities Service (RUS) finances the construction, improvement, and repair of electrical, telecommunications, and water and waste disposal systems through direct loans and repayment guarantees on loans made by other lenders. Given demographic changes, the operating environment of today's utilities industry, and weaknesses in RUS loan management operations, the Congress could reconsider the role of RUS in the development of the utility infrastructure for the nation's rural areas. We have identified various steps RUS could take to increase the

¹⁵ *Federal Land Management: Streamlining and Reorganization Issues* (GAO/T-RCED-96-209, June 27, 1996).

¹⁶ *Food Safety: U.S. Needs a Single Agency to Administer a Unified, Risk-Based Inspection System* (GAO/T-RCED-99-256, Aug. 4, 1999).

¹⁷ *Farm Service Agency: Characteristics of Small County Offices* (GAO/RCED-99-162, May 28, 1999).

effectiveness and reduce the costs of its loan programs. From a financial standpoint, RUS has successfully operated the telecommunications loan program, but the agency has had, and continues to have, significant financial problems with the electricity loan program. For example, during fiscal years 1992 through July 31, 1997, RUS wrote off the debt of four electricity loan borrowers totaling more than \$1.5 billion. Since then, the agency has written off \$0.3 billion and is in the process of writing off an additional \$3.0 billion, and it is probable that the agency will continue to incur losses in the future.¹⁸

- Closing, consolidating or privatizing Coast Guard training and operating facilities could provide significant budgetary savings. In fiscal year 1996, we reported that the Coast Guard could save \$6 million by closing or consolidating over 20 small boat stations. Also in 1996, we recommended that the Coast Guard consider other alternatives—such as privatization—to operate its vessel traffic service centers, which cost about \$20 million in fiscal year 1999 to operate. In fiscal year 1995, we recommended that the Coast Guard close one of its large training centers in Petaluma, California, at a savings of \$9 million annually. The Coast Guard has faced, however, significant opposition to closing facilities.¹⁹
- The Commissioned Corps of the Public Health Service (PHS) was established in the late 1800s to provide medical care to sick and injured merchant seamen. As a result of temporary service with the armed forces during World Wars I and II, members of the Corps were authorized to assume military ranks and receive military-like compensation. Today, Corps officers continue to receive virtually the same pay and benefits as military officers, including retirement eligibility (at any age) after 20 years. However the functions of the Corps have become essentially civilian in nature, and, in fact, some civilian PHS employees carry out the same functions as Corps members. Further, the Corps has not been incorporated into the armed forces since 1952. Based on 1994 costs, when all of the components of personnel costs—including basic pay and salaries; special pay, allowances, and bonuses; retirement; health care; life insurance; and Corps members' tax advantages—were considered, PHS personnel costs could have been reduced by converting the Commissioned Corps to civilian status.²⁰

¹⁸*Rural Utilities Service: Opportunities to Operate Electricity and Telecommunications Loan Programs More Effectively* (GAO/RCED-98-42, Jan. 21, 1998).

¹⁹*Coast Guard: Review of Administrative and Support Functions* (GAO/RCED-99-62R, Mar. 10, 1999) and *Coast Guard: Challenges for Addressing Budget Constraints* (GAO/RCED-97-110, May 14, 1997).

²⁰*Federal Personnel: Issues on the Need for the Public Health Service's Commissioned Corps* (GAO/GGD-96-55, May 7, 1996).

-
- The Department of Veterans Affairs (VA) owns 4,700 buildings and 18,000 acres of land, which it uses to operate 181 major health care delivery locations. VA spends about \$1 out of every \$4 of its \$18.4 billion budget to operate, maintain, and improve its delivery locations—in effect, the cost of its asset ownership. VA's delivery locations operate in 106 health care markets, and in 40 of these markets multiple VA facilities compete with each other to serve veterans—for example, 4 major VA facilities are located in the Chicago market. However, all VA delivery locations project a declining veteran population base, and two-thirds expect declines greater than 33 percent in the next 20 years. Without major restructuring over the next several years, billions of dollars will be used to operate hundreds of unneeded VA buildings. For example, a VA study projected annual savings ranging from \$132 million to \$189 million by consolidating medical and administrative services at its major delivery locations in the Chicago area. VA needs to develop and implement realignment plans for all of its health care markets, and the Congress could consider a variety of options, such as greater reliance on community-based, integrated networks of VA and non-VA providers, to meet the health care needs of veterans in the most cost-effective manner.²¹

Reassessing What the Federal Government Does

Addressing high-risk activities and pursuing opportunities to improve economy and efficiencies in government operations can yield significant improvements and cost savings and, hence, should be important targets for congressional oversight. However, it is also important to periodically examine whether current programs and activities remain relevant, appropriate and effective. Our work suggests that congressional oversight could usefully address three fundamental questions.

- Has a program succeeded, or persistently failed in accomplishing its intended objective(s)?
- Have underlying conditions that prompted federal intervention changed such that original objectives are no longer valid?
- Have cost estimates risen significantly above those associated with the original objective(s), or have benefits fallen substantially below original expectations?

²¹ VA Health Care: Challenges Facing VA in Developing an Asset Realignment Process (GAO/T-HEHS-99-173, July 22, 1999).

The following examples are illustrative of programs and activities that could be considered for reform, reduction, or termination because of fundamental changes affecting original objectives and purposes.

- DOD plans to develop and procure several aircraft, including the F/A-18E/F, the F-22, and the multi-service Joint Strike Fighter, to replace various types of tactical fighter and ground attack aircraft. As the nation proceeds to the next century with the prospect of a flat defense budget, DOD's plan to modernize its tactical aircraft fleet will be a significant issue confronting the Congress. DOD's planned investment in these aircraft, estimated by the Congressional Budget Office to exceed \$350 billion, is likely to be significantly greater than probable future budgets. Moreover, questions have been raised about the need for, and cost-benefit of, all these systems given likely threats. The traditional practices of approving all requested programs and then reducing procurement quantities within each program lowers acquisition costs but exacerbates the problem of aging equipment and associated operating and support costs. The Congress and DOD will need to carefully consider tactical aircraft investment options to ensure balance among bona fide national security needs based on realistic threat assessments, the desires of individual services, and what can be afforded given likely future budgets.²²
- The Army plans to invest over \$13 billion dollars to develop and procure the Crusader self-propelled howitzer and its resupply vehicle to be used by the Army's rapidly deployable and forward-deployed forces. The Crusader program has experienced a number of problems that have delayed its development by 12 to 18 months, and a number of technical uncertainties remain. The Army has recently proposed changes to the Crusader artillery system to make it more affordable and relevant to future war plans. The new program reduces the planned procurement quantity, changes the armor, and cuts the system's weight to about 90 tons. Such changes, however, will likely reduce some of the Crusader's originally planned capabilities. Given the Crusader program's high acquisition costs and uncertain capabilities and requirements, other less costly alternatives—such as upgrading the Army's current Paladin system or procuring the German PzH 2000 self-propelled howitzer—could be investigated.²³
- The Army National Guard's combat structure, with 42 combat brigades, exceeds projected requirements for two major regional conflicts,

²²*Fiscal Year 2000 Budget: DOD's Procurement and RDT&E Programs* (GAO/NSIAD-99-233R, Sept. 23, 1999).

²³*Army Armored Systems: Meeting Crusader Requirements Will Be a Technical Challenge* (GAO/NSIAD-97-121, June 6, 1997).

according to war planners and DOD and Army studies. Although the National Guard has state missions in addition to its federal role, a 1995 RAND study of the use of Guard forces for state missions concluded that, even in a peak year, such missions would not require a large portion of the Guard and should not be used as a basis for sizing the Guard's force. However, DOD has not yet addressed critical issues regarding the Guard's combat structure or eliminating any excess forces. As a result, the combat structure is left in place but has no valid war-fighting mission. Although the Army National Guard agreed to reduce its forces by 17,000 through fiscal year 2000, it did not agree to reduce overall force structure.²⁴

- The need for the Selective Service System could be reassessed. No one has been drafted in the United States since 1973 and the advent of an all-volunteer force. Since 1980, males between the ages of 18 and 26 have continued registering with the Selective Service System for a potential draft in the event a national emergency occurs. However, it would require congressional action to actually draft men into the military, and a return to a military draft seems unlikely, even under the current recruiting difficulties the military services are facing. One reason for this is that the recruiting shortfalls represent only a minute percentage of the over 13 million males of draft age and it would be very difficult to ensure a fair and equitable draft to cover such shortfalls. The likelihood of the United States engaging in a manpower-intensive conflict in the future is very remote, so alternative approaches to a draft could be devised to fill personnel needs. It has been estimated that it would take a little more than one year and funding equal to about one year's appropriation to bring the Selective Service System back from a "deep standby" status.²⁵
- The Uniformed Services University of the Health Sciences (USUHS) is a medical school operated by DOD. Those who propose closing the university assert that DOD's need for physicians could be met at a lower cost using physicians educated at civilian medical schools under the DOD scholarship program. USUHS is a more costly source of military physicians on a per graduate basis when DOD's and total federal costs are considered. With DOD education and retention costs of about \$3.3 million over the course of a physician's career, the cost of a USUHS graduate is

²⁴Army National Guard: Planned Conversions Are a Positive Step, But Unvalidated Combat Forces Remain (GAO/NSIAD-97-55BR, Jan. 29, 1997).

²⁵Selective Service: Cost and Implications of Two Alternatives to the Present System (GAO/NSIAD-97-225, Sept. 10, 1995).

more than 2 times greater than the \$1.5 million cost for a DOD scholarship program graduate.²⁶

- The National Aeronautics and Space Administration (NASA) has estimated that the annual cost to operate the International Space Station (ISS) will average \$1.3 billion, or \$13 billion over a 10-year mission life. However, this estimate does not include risks associated with international partner commitments or other funding requirements, such as (1) costs associated with necessary upgrades due to component obsolescence, (2) end-of-mission costs to either extend or decommission the ISS, and (3) a variety of support costs (space shuttle flights, personnel, space communications, etc.) that are currently shown in other portions of NASA's budget.²⁷ Although assembly of the ISS is well under way, congressional oversight is vital to ensure that NASA's other priorities are not sacrificed in the agency's annual budget request to primarily fund ISS operations.
- DOE has lacked an investment strategy to assure that supercomputer acquisitions are fully justified and represent the best use of funds among competing priorities. From fiscal years 1994 through 1997, DOE spent about \$300 million to purchase 35 supercomputers and about \$526 million to operate them. Since fiscal year 1998, DOE has spent an estimated \$257 million to acquire additional supercomputers, most associated with the Strategic Computing Initiative. However, DOE used only about 59 percent of its available supercomputer capacity in fiscal year 1997 and was missing opportunities to share supercomputer resources. The largest supercomputers—those justified as needed to run very large programs across hundreds or even thousands of processors—were seriously underutilized. Less than 5 percent of the jobs run on those supercomputers used more than one-half of the supercomputers' available processors.²⁸
- The USDA Market Access Program (MAP) subsidizes the promotion of U.S. agricultural products in overseas markets. Despite changes made to the program between 1993 and 1998, its results remain uncertain. For example, our work has noted several unresolved questions, including whether subsidized promotions generate positive net economic returns, increase exports that would not have occurred without the program, and

²⁶ *Military Physicians: DOD's Medical School and Scholarship Program* (GAO/HEHS-95-244, Sept. 29, 1995).

²⁷ *Space Station: Cost to Operate After Assembly is Uncertain* (GAO/NSIAD-99-177, Aug. 6, 1999).

²⁸ *Nuclear Weapons: DOE Needs to Improve Oversight of the \$5 Billion Strategic Computing Initiative* (GAO/RCED-99-195, June 28, 1999) and *Information Technology: Department of Energy Does Not Effectively Manage its Supercomputers* (GAO/RCED-98-208, July 17, 1998).

supplement rather than supplant private sector spending.²⁹ Moreover, MAP promotions can have significant spin-off effects. For example, a 1996 study of U.S. apple exports to the United Kingdom and Singapore found that U.S. market share and export value increased in the United Kingdom, but that foreign competitors mainly benefited from MAP promotions in Singapore; Chilean and French apple producers experienced increases in export shares 3 to 10 times greater than U.S. producers. The Congress could reassess MAP and consider terminating or significantly reducing the program.

- The Coast Guard needs to develop a realistic estimate of needs based on the capabilities of its current fleet of ships and aircraft for its Deepwater Project, the largest acquisition project in the agency's history. The initial justification did not accurately or fully depict the need to replace or modernize its fleet of deepwater ships and aircraft. The agency's initial estimate that the project may cost \$9.8 billion, or about \$500 million annually over 20 years, would consume more than the agency now spends for all capital projects and leave little funding for other critical capital needs.³⁰
- To improve Amtrak's financial performance and potentially reduce federal subsidies, the Congress must make fundamental choices between expectations for intercity passenger rail service and the federal financial assistance that can be provided. These decisions involve determining the appropriate scope of Amtrak's route network and restructuring it accordingly, which could impact the need for financial assistance. Like other intercity passenger rail systems outside the United States, Amtrak receives substantial government support. Since 1971, the federal government has provided over \$23 billion in operating and capital assistance. Ridership in many areas is light: in 13 states, fewer than 100 passengers, on average, boarded an Amtrak train on a given day in 1997. A number of Amtrak's routes lost large sums of money in 1997; of the 40 Amtrak routes, 13 routes each lost over \$30 million and 14 each lost more than \$100 for every passenger. Overall in 1999, Amtrak lost \$907 million. In 1994, at the request of the administration and later at the direction of the Congress, Amtrak pledged to eliminate the need for federal operating subsidies by the end of 2002. However, Amtrak has made relatively little progress in reducing its need for federal operating subsidies; in fact, it must make nearly 4 times the progress in the coming 3 years (through

²⁹ *Agricultural Trade: Changes Made to Market Access Program, but Questions Remain on Economic Impact* (GAO/NSIAD-99-38, Apr. 5, 1999).

³⁰ *Coast Guard's Acquisition Management: Deepwater Project's Justification and Affordability Need to Be Addressed More Thoroughly* (GAO/RCED-99-6, Oct. 26, 1998).

2002) than it has made over the previous 5 years. If Amtrak continues to require federal operating subsidies after 2002, the Amtrak Reform and Accountability Act of 1997 provides for the Congress to consider either restructuring or liquidating the railroad.³¹

- Cargo preference laws require that certain government-owned or -financed cargo shipped internationally be carried on U.S.-flagged vessels. The laws were intended to guarantee a minimum amount of business for the U.S.-flagged vessels that are crewed by U.S. mariners, generally built in U.S. shipyards, and are encouraged to be maintained and repaired in U.S. shipyards. The effect of cargo preference laws has been mixed. Although the laws appear to have had a substantial impact on the U.S. merchant marine industry by providing an incentive for vessels to remain in the U.S. fleet, cargo preference laws have increased the government's transportation costs because U.S.-flagged vessels often charge higher rates to transport cargo than foreign-flagged vessels. Cargo preference laws increased federal agencies' transportation costs by an estimated \$578 million per year in fiscal years 1989 through 1993 over the cost of using foreign-flagged vessels.³²
- The Medicare Incentive Payment program was developed to provide a bonus payment for Medicare services provided in areas identified as having a shortage of primary care physicians. About 60 percent of the payments, about \$65 million, was made to specialists; two-thirds of those payments—and many of the substantial bonus payments, such as \$69,000 to a dermatologist and \$57,000 to a neurosurgeon—were made to specialists in urban areas, rather than to primary care physicians in medically underserved areas. The bonus payments do not appear to have a significant impact on physician recruitment and retention, and recent beneficiary survey information indicates that access problems arise for reasons other than the unavailability of physicians.³³
- The Government Printing Office (GPO), which receives over \$100 million in annual appropriations, effectively has a statutory monopoly over printing for the federal government.³⁴ GPO's monopoly-like role in

³¹*Intercity Passenger Rail: Amtrak Faces Challenges in Improving its Financial Condition* (GAO/T-RCED-00-30, Oct. 28, 1999).

³²*Maritime Industry: Cargo Preference Laws—Estimated Costs and Effects* (GAO/RCED-95-34, Nov. 30, 1994).

³³*Physician Shortage Areas: Medicare Incentive Payment Not an Effective Approach to Improve Access* (GAO/HEHS-99-36, Feb. 26, 1999).

³⁴*Government Printing: Legal and Regulatory Framework Is Outdated for New Technological Environment* (GAO/NSIAD-94-157, Apr. 15, 1994).

providing printing services perpetuates inefficiency because it permits GPO to be insulated from market forces and does not provide incentives to improve operations and processes that will ensure quality services at competitive prices. Federal agencies could be given the authority to make their own printing policies, requiring GPO to compete with private sector printing service providers. If GPO is unable to provide quality service at competitive prices, the need for retaining a government printing office could then be re-examined.

Redefine Who Benefits From Federal Government Programs

The Congress originally defines the intended audience for any program or service based on a certain perception of eligibility and/or need. To better reflect changing conditions and target limited resources, these definitions should be periodically reviewed and revised. Our work has identified eligibility rules and subsidies to states, businesses and individuals that are no longer needed or that could be better targeted without changing the basic objectives of the program. As presently designed, a variety of grants, tax expenditures, loans and loan guarantees that provide subsidies to recipients who would have undertaken the activity without federal subsidy and thus avoid bearing their fair share of risks and program finances. The following examples illustrate programs and activities that could be considered for reform, reduction, or termination because of changing conditions and perceptions of need.

- Many federal grant programs with formula-based distributions of funds to state and local governments are not well targeted to jurisdictions with high programmatic needs but comparatively low funding capacity. As a result, it is not uncommon that program recipients in areas with greater wealth and relatively lower needs enjoy a higher level of funding than that which is available in harder pressed areas. For example, under the Community Development Block Grant (CDBG), Greenwich, Connecticut received five times more funding per person in poverty in 1995 than that provided to Camden, New Jersey, even though Greenwich, with per capita income six times greater than Camden, could more easily afford to fund its own community development needs. Better targeting of formula-based grant awards offers a strategy to bring down federal outlays by concentrating reductions in wealthier communities with comparatively fewer needs and greater capacity to absorb cuts, while holding harmless harder pressed areas that are most vulnerable. For programs such as Medicaid, Foster Care, and Adoption Assistance, which base reimbursements on the per capita income of the state, the minimum federal share could be reduced or the formula could be revised to better reflect relative need, geographic differences in the cost of services, and state tax bases. For other formula-based grant programs, such as Federal Aid Highways or the CDBG, the

formula could be revised to reflect the differential fiscal capacities of states.³⁵

- The level and scope of the risks of the U.S. Export-Import Bank's (Eximbank) programs could be reduced by placing a ceiling on the maximum subsidy rate allowed, reducing or eliminating program availability in high-risk markets, and offering less than 100-percent risk protection. The Eximbank was created to facilitate exports of U.S. goods and services and is to absorb risks that the private sector is unwilling or unable to assume. Higher-risk markets constitute a relatively small share of the Eximbank's total financing commitments yet absorb a relatively large share of its subsidy costs. These changes would have only a slight effect on the overall level of U.S. exports supported with Eximbank financing. However, these options raise several trade and foreign policy issues that decisionmakers would need to address before making any changes in the Eximbank's programs.³⁶
- DOE and the private sector are involved in hundreds of cost-shared projects aimed at developing a broad spectrum of cost-effective, energy-efficiency technologies that protect the environment, support the nation's economic competitiveness, and promote the increased use of oil, gas, coal, nuclear, and renewable energy resources. Generally, DOE does not require repayment of its investment in technologies that are commercially successful. The potential for repayment can be significant. For example, we reported in 1996 that if only 50 percent of the funds planned for current projects were subject to repayment, and if about 15 percent of research and development funds result in commercialized technologies, then about \$400 million could be repaid to the federal government.³⁷
- Three federal power marketing administration's (PMAs)—Southeastern, Southwestern, and Western—receive annual appropriations to cover operating and maintenance expenses and, if applicable, the capital investment in transmission assets. The fourth PMA, Bonneville Power Administration, does not receive annual appropriations. Federal law requires the PMAs to repay their appropriations as well as the power-

³⁵ *Formula Grants: Effects of Adjusted Population Counts on Federal Funding to States* (GAO/HEHS-99-69, Feb. 26, 1999) and *Federal Grants: Design Improvements Could Help Federal Resources Go Further* (GAO/AIMD-97-7, Dec. 18, 1996).

³⁶ *U.S. Export-Import Bank: Issues Raised by Recent Market Developments and Foreign Competition* (GAO/T-NSIAD-99-23, Oct. 7, 1999).

³⁷ *Energy Research: Opportunities Exist to Recover Federal Investment in Technology Development Projects* (GAO/RCED-96-141, June 26, 1996).

related appropriations expended by the operating agencies that generate the federal power. The PMAs are to set power rates at levels that will allow them to repay these costs. However for several reasons, the federal government currently is not recovering the full cost of its power-related activities from the beneficiaries of federal power. For example, the federal government's financing of power-related activities results in a net cost because the interest rates on outstanding appropriated debt are lower than the rates Treasury incurs in providing the financing. Second, as we reported previously, the PMAs' had not been recovering the full costs of certain pension and other benefits for federal employees involved in power-related activities. Currently, the PMAs are in varying stages of addressing this issue and DOE is considering changing departmental policy to ensure that these costs are recovered in the future. Third, the PMAs are able to sell power more cheaply than other providers because they market power generated almost exclusively at low-cost hydropower facilities, are not required to earn a profit, and do not fully recover the government's costs in their rates. For example, from 1990 through 1995, these three PMAs sold wholesale power to their preference customers at average rates from 40 to 50 percent below the rates nonfederal utilities charged. If the PMAs were authorized to charge market rates for power, some preference customers, who now purchase power from the PMAs at rates that are less than those available from other sources, would see their rates increase. However, slightly more than two-thirds of these preference customers would experience small or no rate increases—increases of one-half cent per kilowatt hour or less—if the PMAs charged market rates. Directing the PMAs to more fully recover power-related costs and requiring them to sell their power at market rates would better ensure the full recovery of the appropriated and other debt—which totaled about \$22 billion at the end of fiscal year 1997—that is recoverable through the PMAs' power sales, as well as lead to more efficient management of the taxpayers' assets.³⁸

- Federal water programs to promote efficient use of finite water resources for the nation's agricultural and rural water systems have developed inconsistencies that may cause the programs to work at cross-purposes. In the area of irrigation the multiplicity of programs and approaches has allowed for inconsistencies and potentially counterproductive outcomes. For example, under the Reclamation Reform Act of 1982, as amended, some farmers have reorganized large farming operations into multiple, smaller landholdings to be eligible to receive additional federally subsidized water. Due to the vague definition of the term "farm," the

³⁸*Federal Power: The Role of Power Marketing Administrations in a Restructured Electricity Industry* (GAO/T-RCED/AIMD-99-229, June 24, 1999) and *Power Marketing Administrations: Cost Recovery, Financing, and Comparison to Nonfederal Utilities* (GAO/AIMD-96-145, Sept. 19, 1996).

960-acre limit established by the act has not stopped the flow of subsidized water to large holdings and the federal government is not collecting revenues to which it is entitled. Also, the use of federally subsidized water to produce federally subsidized crops results in the government paying double subsidies. The Department of the Interior estimated irrigation subsidies used to produce subsidized crops in the 17 western states to be about \$203 million in 1986; the Bureau of Reclamation placed the figure at \$830 million.³⁹

- The Mining Law of 1872 allows holders of economically minable claims on federal lands to obtain all rights and interests to both the land and the hardrock minerals by patenting the claims for \$2.50 or \$5.00 an acre—amounts that fall well short of today's market value for such lands. Furthermore, miners do not pay royalties to the government on hardrock minerals they extract from federal lands. For example, in 1990 hardrock minerals worth at least \$1.2 billion were extracted from federal lands, while known and economically recoverable reserves of hardrock minerals remaining on federal lands were estimated to be worth almost \$65 billion. The Congress could consider revising the law to require the payment of fair market value for a patent and to impose royalty payments on hardrock minerals extracted from federal lands.⁴⁰
- The Federal Emergency Management Agency's (FEMA) Public Assistance Program helps pay state and local governments' costs of repairing and replacing eligible public facilities and equipment damaged by disasters. In a May 1996 report, we presented a number of options identified by FEMA's regional program officials that, if implemented, could reduce program costs. Among the options discussed was eliminating eligibility for private nonprofit organizations, many of which operate revenue-generating facilities such as utilities and hospitals, and publicly owned recreational facilities, which generate a portion of their operational revenue through user fees or admissions charges. Many of these types of facilities could have alternate sources of income sufficient to meet disaster-related costs.⁴¹

³⁹ *Rural Development: Patchwork of Federal Water and Sewer Programs is Difficult to Use* (GAO/RCED-95-160BR, Apr. 13, 1995) and *Water Subsidies: Basic Changes Needed to Avoid Abuse of the 960-Acre Limit* (GAO/RCED-90-6, Oct. 12, 1989).

⁴⁰ *Mineral Royalties: Royalties in the Western States and in Major Mineral-Producing Countries* (GAO/RCED-93-109, Mar. 29, 1993) and *Federal Land Management: The Mining Law of 1892 Needs Revision* (GAO/RCED-89-72, Mar. 10, 1989).

⁴¹ *Disaster Assistance: Information on Federal Costs and Approaches for Reducing Them* (GAO/T-RCED-98-139, Mar. 26, 1998) and *Disaster Assistance: Improvements Needed in Determining Eligibility for Public Assistance* (GAO/RCED-96-113, May 23, 1996).

- Repetitive flood loss is one of the major factors contributing to the financial difficulties facing the National Flood Insurance Program. The Congress and FEMA could consider eliminating flood insurance and emphasizing mitigation for certain repeatedly flooded properties, removing what some argue is now an incentive to locate in harm's way. Approximately 43,000 buildings currently insured under the National Flood Insurance Program have been flooded on more than one occasion. These repetitive losses account for about 36 percent of all program claims historically (currently about \$200 million annually) even though repetitive-loss structures make up a very small portion of the total number of insured properties—at any one time between 1 to 2 percent. The cost to the program of these multiple-loss properties over the years has been about \$2 billion.⁴²
- We have reported in the past on this nation's practice of compensating veterans for medical conditions, such as diabetes, chronic obstructive pulmonary disease, arteriosclerotic heart disease, and multiple sclerosis, that were probably neither caused nor aggravated by military service.⁴³ In 1996, the Congressional Budget Office reported that about 230,000 veterans were receiving about \$1.1 billion in disability compensation payments annually for diseases neither caused nor aggravated by military service. Other foreign countries we reviewed require that a disability be closely related to the performance of military duty to qualify for disability benefits; no such link is required in the United States. The Congress could reconsider whether diseases neither caused nor aggravated by military service should be compensated as service-connected disabilities.

Pursuing Effective Oversight: The Challenge Ahead

Mr. Chairman, I am sure that this illustrative list of government performance and management problems is sobering. There is much to be done, but the task is not overwhelming. Given the demanding missions of our government and the sheer size and complexity of federal operations, performance shortfalls should neither be surprising nor accepted. As my testimony today suggests, significant opportunities exist to curb fraud, waste, and abuse in a wide range of federal activities and to update the priorities and program operations of the federal government in keeping with broader changes affecting our entire society and economy.

⁴²*Flood Insurance: Information on Financial Aspects of the National Flood Insurance Program* (GAO/T-RCED-00-23, Oct. 27, 1999).

⁴³*Disabled Veterans Programs: U.S. Eligibility and Benefit Types Compared to Five Other Countries* (GAO/HRD-94-6, Nov. 24, 1993).

This is an opportune time to refocus congressional oversight. Not only are we free of the dominating concerns of the recent past—the Cold War and annual deficits—but we are about to begin to see the benefits of a wide-ranging reform agenda in the executive branch prompted by a series of laws—including the Government Performance and Results Act, the Chief Financial Officers Act, and the Clinger-Cohen Act—enacted by the Congress. The concerns of the Congress that led to the passage of those laws should now be directed toward a careful reconsideration of how the Congress will take advantage of and leverage the new information and perspectives coming from the executive branch management reforms.

As agencies continue to make progress in implementing these financial and performance management reforms, we can expect further opportunities for congressional oversight to be revealed. The information they provide can assist in identifying weaknesses and illustrating programs and functions that are working well. Financial statements, for instance, are beginning to report information on improper payments, which is already helping to better target areas needing priority congressional and management attention. As more reliable financial information is developed and disclosed, new information will be forthcoming to inform resource allocation and oversight in other areas as well. For instance, audited information on the extent of federal liabilities for environmental cleanup should help us better understand future cost pressures facing the budget and improve the cost effectiveness and targeting of our cleanup efforts. Similarly, the development of more reliable cost information should help us better manage these costs and make more informed tradeoffs among competing programs and strategies to address federal objectives.

The evolution of performance management should also assist oversight. The forthcoming publication of agency performance reports, due in March of 2000, comparing actual levels of performance against performance goals contained in agency plans, should help pinpoint both performance shortfalls and successes. These reports should also prompt inquiries to understand the factors responsible for performance outcomes, permitting a more systematic understanding of the role played by program design and management in influencing program results. The performance reports will also help us better understand strengths and weaknesses in agency performance information and data. Continued improvement in agency data should facilitate a deeper and broader assessment of the relative effectiveness of federal strategies to achieve important goals.

In this context, I would note that the Administration has articulated an agenda in its fiscal year 2001 budget to improve financial and performance management across a wide range of federal activities. Specifically, they

have identified 24 priority management objectives dealing with many of the problems discussed in this statement. For instance, the Administration has included a goal addressing the improper payments problem and has promised to provide guidance to agencies on such issues as verifying eligibility criteria and estimating the extent of improper payment problems. Proposals are also advanced to strengthen the management capacities of HCFA and implement reforms at HUD, among other agencies. Continued top-level management attention to these issues is vital to making progress, as is congressional oversight of these initiatives.

As you know Mr. Chairman, oversight of federal programs and activities can be a daunting challenge. While there may be some "low hanging fruit" in the examples I have just discussed, real improvements in performance and management will more likely call for a disciplined and determined approach. Many of the examples I have discussed come from longstanding weaknesses in management structures and processes and will likely require sustained attention over an extended period of time. Examining existing programs and operations entails taking a hard look at programs that often have become deeply engrained and carefully reconsidering the goals those programs were intended to address as well as how those goals are implemented. It involves sorting through the maze of federal programs and activities where multiple agencies often operate many different programs to address often common or complimentary objectives. Addressing identified problems will call for hard choices; although offering distinct benefits, the choices will involve important stakes for many throughout our system.

Effective congressional oversight can be a means not only to identify where programs and activities should be terminated, but also where carefully selected investments by federal agencies in human capital, technology, and financial and information management resources can yield important dividends in the form of longer term cost savings and improvements in performance. However, better information is needed to permit decisionmakers to sort through claims and to distinguish the infinite variety of "wants" from those investments that promise to effectively address critical "needs." Unfortunately, recent experiences ranging from information technology projects to major weapon systems illustrate that our return on such investments has been disappointing. Poorly conceived projects based on incomplete or inaccurate information and performance projections have led to projects with huge cost overruns and limited performance improvements. Although constructive change is occurring,⁴⁴ our work demonstrates the need to improve the basis for

⁴⁴Executive Guide: *Leading Practices in Capital Decision-Making* (GAO/AIMD-99-32, Dec. 1999).

capital investments, in general, and information technology investments, in particular.

I again commend you, Mr. Chairman, for holding these hearings and for reminding us all of the importance of continued diligence regarding the performance and management of government programs. Prudent stewardship of our nation's resources—whether in time of deficit or surplus—is essential not only to meet today's needs but also tomorrow's commitments and demands. Sustained congressional and executive agency attention to improving management systems and controls is vital to promoting proper stewardship of federal resources and preventing risks of fraud, waste, and abuse that undermine the public's confidence in their government. Broad-scale reexamination of federal government priorities, programs, and activities is also vital to ensure our capacity to meet current and emerging needs. We in GAO take very seriously our responsibility to assist you in promoting and ensuring accountability, integrity, and reliability throughout the government.

Contact and Acknowledgements

For future contacts regarding this testimony, please contact Paul L. Posner, Director for Budget Issues, at (202) 512-9573. Individuals making key contributions to this testimony included George H. Stalcup, Michael J. Curro, Hannah R. Laufe, and Toni J. Wehman.

(935350)

Ordering Information

Orders by Internet

For information on how to access GAO reports on the Internet, send an e-mail message with "info" in the body to:

Info@www.gao.gov

or visit GAO's World Wide Web home page at:

<http://www.gao.gov>

To Report Fraud, Waste, and Abuse in Federal Programs

Contact one:

Web site: <http://www.gao.gov/fraudnet/fraudnet.htm>

E-mail: fraudnet@gao.gov

1-800-424-5454 (automated answering system)